



The Property & Equipment Policy Office is pleased to present the second of two training courses on the Military Equipment Valuation (or, MEV) initiative. This one is called “Management Assertion for Military Equipment.”

In the first course, “MEV Basics,” you learned what MEV is and why it’s necessary. You learned about how military equipment will no longer be expensed, and how it will now be treated as capitalized assets and updated on a quarterly basis. You also learned that the immediate goal of this initiative is to establish an auditable baseline for military equipment.

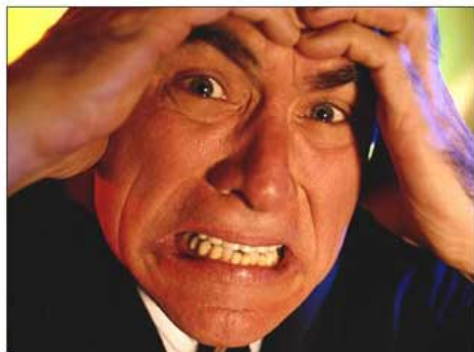
In this course you will learn how the Military Departments, Defense Agencies, and P&E Policy Office will work together to make the Fiscal Year 2006 military equipment baseline data audit-ready.

Because this is a Department of Defense-wide effort, the details on how the Army, Navy, Air Force, and applicable Defense Agencies will implement this effort will be communicated within your specific Service or Agency. In this course, we will address the overall Management Assertion process and critical action dates.



**This training matters because...**

**The Auditors Are Coming!**



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This training matters, because the auditors are coming.

At the end of Fiscal Year 2006, military equipment programs are subject to an independent audit.

The auditors will be looking for evidence that we are accurately representing military equipment values on financial statements—that the numbers are up-to-date and reflect all the programs with assets that meet the valuation criteria.

Because making military equipment data audit-ready is a new requirement, the minimum Comptroller requirements for audit preparations have to be supplemented to support military equipment. This supplemental process is called the Management Assertion process for military equipment.



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MA DefinedWhy It's NecessaryMA PackageMA ProcessWhere to Get Help

## Presentation Roadmap

1. What Is Management Assertion?
2. Why Is Management Assertion Necessary?
3. What Is the Management Assertion Package?
4. What Is the Process to Document the Five Assertions?
5. Where Can You Go for Help?

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In this course, you'll learn all about Management Assertion. Specifically, we will look at five key points.

- What we mean by Management Assertion;
- Why it's necessary;
- What the Management Assertion Package is;
- What the process is for documenting the five assertions; and
- Where to go for help.



# 1

## What Is Management Assertion?

**A formal statement** provided by the financial head of a Component stating that the initial military equipment program values are ready for audit.


**It is supported by a system of internal controls** that demonstrates that the data DoD has collected support the program values that are being reported. This is the Management Assertion process.

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Let's begin with Key Point 1 – What Is Management Assertion?

Management Assertion is a formal statement provided by the financial head of a Component stating that the initial military equipment program values are ready for audit.

It is supported by a system of internal controls that demonstrates that the data DoD has collected support the program values that are being reported. This is the Management Assertion process.



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## Management Assertion Conveys Audit Readiness

**Attestations** are statements that certify the accuracy of data inputs to support the management assertion.

**Assertions** are statements that certify that:

- The items have been **valued** in accordance with Federal Accounting Standards or Generally Accepted Accounting Principles (GAAP)
- Everything that should be **reported** has been recorded and reported
- Service reporting the item does in fact have the **rights and "owns"** the equipment
- Military equipment reported by the DoD does in fact **exist**
- The information is **presented** accurately on the financial statement

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Management Assertion conveys audit readiness.

Why is this necessary? Because the Under Secretary of Defense (Comptroller) is responsible for ensuring that DoD is ready for the audit of its military equipment values before funds are expended to employ an independent auditor. Therefore, audit readiness for military equipment will be accomplished by completing attestations and assertions.

**Attestations** certify that the data **inputs** that collectively produce the numbers on financial statements are accurate.

For example, budget and expenditure data are inputs that figure into the average cost calculation, which leads to one value listed on financial statements. Therefore, Program Managers will attest to the accuracy of the data provided for the program valuations.

**Assertions** certify that the "**output**" numbers listed on the financial statements are accurate.

For military equipment, we will certify five things:

- The items have been valued in accordance with Federal Accounting Standards or Generally Accepted Accounting Principles (or, GAAP);
- Everything that should be reported has been recorded and reported;
- The Service reporting the items does in fact have the rights and "owns" the equipment;
- The military equipment reported by DoD does in fact exist; and
- The information is presented accurately on the financial statement.



# 2

## Why Is Management Assertion Necessary?


The formal **statement** complies with the law.

The **system** of internal controls is good business and satisfies the unique challenges of reporting military equipment program values.

So, why is Management Assertion necessary?

The formal statement complies with the law. And the system of internal controls is good business. It also satisfies the unique challenges of reporting military equipment values.

We'll look at each statement individually on the next few slides.




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## It's the Law

Section 1008 of the 2002 National Defense Authorization Act established criteria that must be met before an organization can make a representation that it is ready for audit.



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Let's look at the statement "It's the Law."

We mentioned previously that the Under Secretary of Defense (Comptroller) must ensure that DoD is ready for the audit of its military equipment values prior to when funds are expended to employ an independent auditor.

Well, this guidance is actually required by Section 1008 of the 2002 National Defense Authorization Act; it specifies that the Under Secretary of Defense (Comptroller) is responsible for ensuring that resources expended on financial statement preparation are minimized until the reporting entity can demonstrate that it is ready for audit.

Management Asssertion helps coordinate the individual responsibilities and ultimate interaction of the acquisition, logistics, and financial management communities, so that a representation of audit readiness can be made.



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## It's Good Business

DoD must have processes and procedures in place to ensure that data are accurately collected at the source, flow through processes, and are free from error.




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Furthermore, the Management Assertion process makes good business sense.

It gives DoD senior management officials confidence that the information presented on financial statements is materially correct.

And, having auditable financial statements also establishes credibility with our stakeholders, in particular, Congress and the American taxpayer.





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## Military Equipment Is Unique

Because military equipment data must be obtained from the acquisition and logistics communities, individuals in these communities need to assert to the accuracy of the data they provide.




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The Management Assertion process for military equipment is unique. Because military equipment data must be obtained from the acquisition and logistics communities, individuals in these communities need to assert to the accuracy of the data they provide.

In a typical audit readiness environment, a Comptroller provides the Management Assertion relative to the data that supports the financial statements. However, in the case of military equipment, the entities that have the most accurate and up-to-date knowledge of the data input into the financial statements must make the relative certifications of the data accuracy.

We're in the process of creating automated systems for establishing military equipment values and depreciating those values over time. But until those systems are fully operational, an assertion process is needed to validate the data obtained from the Acquisition and Logistics communities.



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# 3

## What Is the Management Assertion Package?

It's the formal statement declaring audit readiness.


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Next, let's look at Key Point 3 – “What Is the Management Assertion Package?”

The Management Assertion Package is the formal statement declaring audit readiness.

At the beginning of the MEV initiative, Military Departments and Defense Agencies met many times to choose the best strategy for securing a clean audit opinion.


In a memo released on June 23<sup>rd</sup>, 2004, titled “Financial Improvement Initiative Business Rules,” the Management Assertion Package was first described. It is the conduit by which DoD will communicate completion of the Under Secretary of Defense (Comptroller's) requirements for assertion.




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## Management Assertion Package Contents



- Cover Memo** from the Assistant Secretary for Financial Management and Comptroller



- Assertion Checklist** and Accompanying Documents Required by the USD Comptroller



- Documentation** for the Five Assertions

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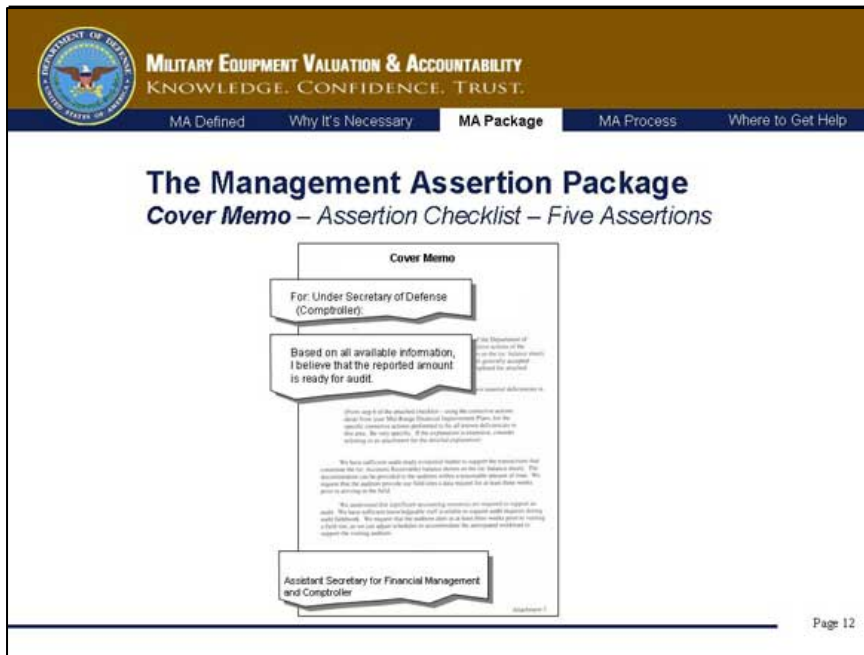
The Deputy Chief Financial Officer and the Director of Acquisition Resources and Analysis in the Office of the Under Secretary of Defense for Acquisition, Technology & Logistics identified three elements in the assertion package: the cover memorandum, the assertion checklist, and the documentation for the five assertions.

The **cover memo** is the legal representation that DoD is ready for audit.

The **assertion checklist** and the accompanying documents support the USD (Comptroller's) representation.

And, the **documentation for the five assertions** deals with the uniqueness of the military equipment and requires the participation of the Acquisition and Logistics communities.

We will look at each element individually on the next few slides.



## The Management Assertion Package

### Cover Memo – Assertion Checklist – Five Assertions

For: Under Secretary of Defense  
(Comptroller):

Based on all available information, I believe that the reported amount is ready for audit.

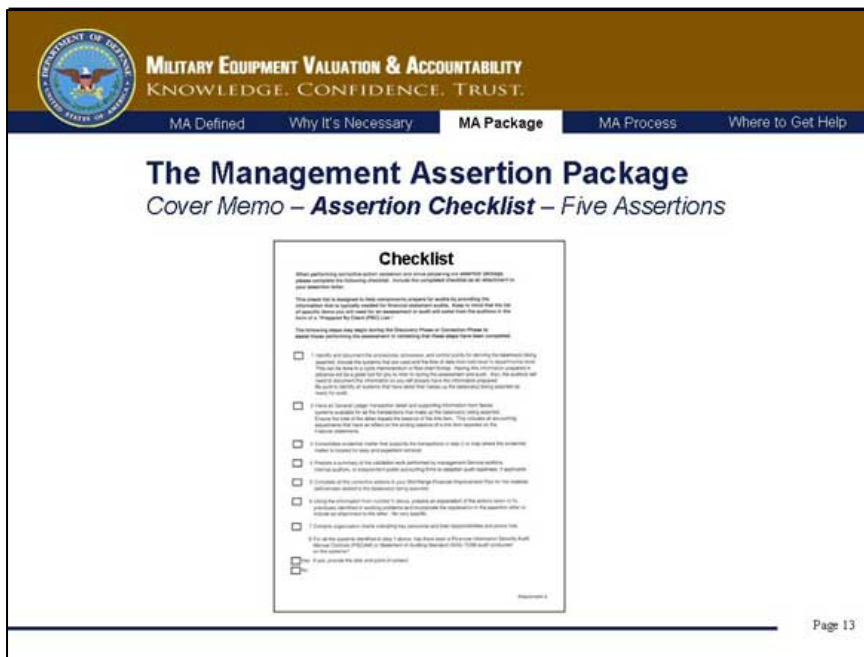
shown, angle of lead attached checklist – using the corrective action steps from your *Five-Range Structural Improvement Plan*, for the specific corrective action performed to fix all points of deficiency in the area. Be very specific. If the explanation is extensive, consider referring to an attachment for the detailed explanation.

We have sufficient available study material to support the programme and concerning the first document, Recommendation letters should be the only evidence study. The documentation can be provided to the students within a reasonable amount of time. We require that the students provide any field notes data required for at least three weeks prior to arriving in the field.

We acknowledge significant growing concerns on issues to support an audit. We have sufficient knowledgeable staff available to support audit requests during work hours. We require that the authors state in a letter three months prior to conduct a field visit, so we can adjust schedules to accommodate the anticipated workload to support the visiting authors.

Assistant Secretary for Financial Management  
and Comptroller

The cover memo is sent from the Component Assistant Secretary for Financial Management and Comptroller to the Under Secretary of Defense (Comptroller). It states that—based on all available information—the Component Assistant Secretary for Financial Management and Comptroller believes that the reported amount is ready for audit.



## The Management Assertion Package

Cover Memo – **Assertion Checklist** – Five Assertions

## Checklist

The proxy list is designed to help companies prepare for audits by providing the information that is typically needed for financial statement audits. Keep in mind that the list of specific items you will need for an assessment or audit will come from the auditors in the form of a "Request for Data (RFD)" list.

The following steps may apply during the Discovery Phase or Execution Phase to assist those performing the assessment in ensuring that these steps have been completed:

☐ I identify and document the appropriate references and writing guide for deriving the report.


- [illegible]

The assertion checklist describes the generic information that must be available to support all reported balances. It is also commonly referred to as the “18 Tab Document.”

The assertion checklist information includes:

- A flowchart of the processes involved;
- A description of the affected systems that feed the accounting and accountability systems; and
- A summary of how previously identified audit issues have been resolved.

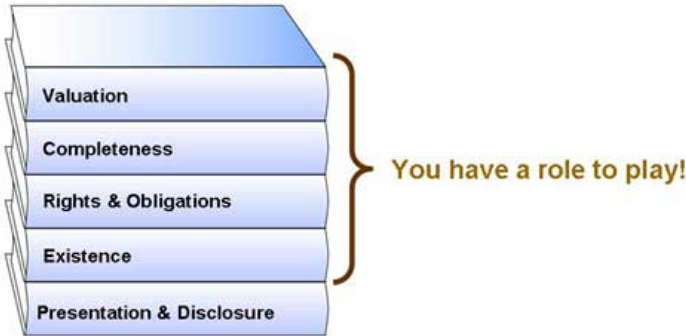
The P&E Policy Office will complete the checklist for CAMS-ME. DFAS will complete the checklist for each Component accounting system that is used to extract program expenditure data.

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## The Management Assertion Package

*Cover Memo – Assertion Checklist – **Five Assertions***



Valuation  
Completeness  
Rights & Obligations  
Existence  
Presentation & Disclosure

**You have a role to play!**

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The five assertions you see here are common in private-sector accounting. By requiring them for military equipment programs, DoD is demonstrating its commitment to undergo a significant business transformation.

Depending on where you work, you may have a role to play in many of the five assertions: Let's look at each one individually.

**For the Valuation Assertion**, the P&E Policy Office will assert that the assets have been valued in accordance with the Federal Accounting Standards and Generally Accepted Accounting Principles. The P&E Policy Office will make this assertion based on receiving attestations from the Program Management Offices on the data they provided to complete the valuations, in particular budget data, Financial Account Codes, and useful life.

**For the Completeness Assertion**, the Acquisition community will assert that—for the Property, Plant & Equipment (or, PP&E) line item on the balance sheet—all programs that should be reported have been recorded and reported. This means all programs with assets meeting the military equipment valuation criteria are included in the reported value.

**For the Rights and Obligations Assertion**, the Acquisition community will assert that the Service or Agency reporting the item does, in fact, have the rights to and “owns” the equipment and that there is documentation to support that.

**For the Existence Assertion**, the Acquisition and/or Logistics communities will assert that the military equipment reported by DoD does, in fact, exist, and that there is proof of its physical existence.

**For the Presentation and Disclosure Assertion**, the Financial Management community asserts that the information is presented accurately on financial statements.



# 4

## What Is the Process to Document the Five Assertions?

It's a collaborative effort among the acquisition, logistics, and financial management communities to make program data audit-ready.

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What is the process for documenting the five assertions?

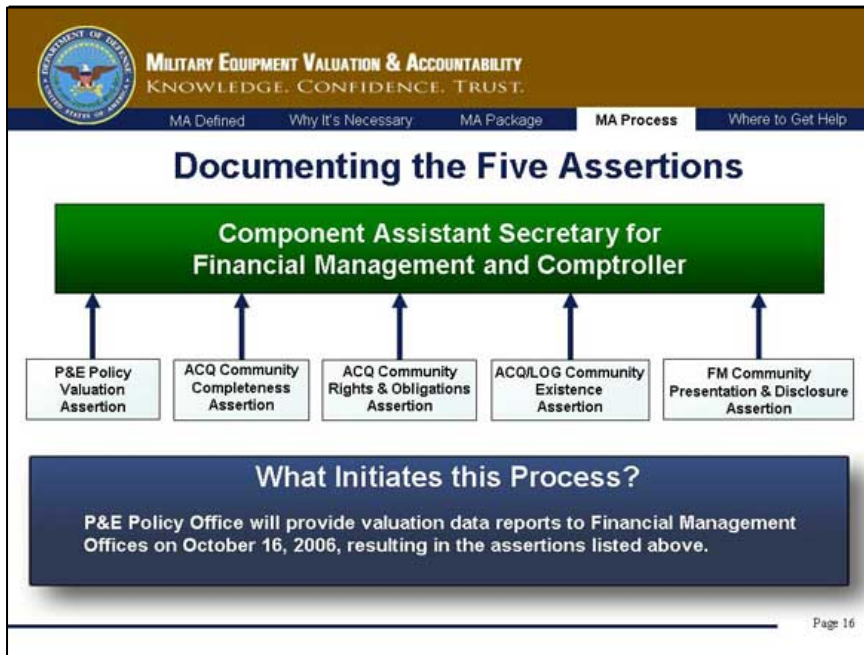
It is a collaborative effort among the Acquisition, Logistics, and Financial Management communities to make program data audit-ready.

The assertions are made by individuals who have the most up-to-date knowledge about the military equipment programs and can make the claim that the information is accurate.

The assertions will ultimately be submitted to the Component Assistant Secretary for Financial Management and Comptroller before December 31<sup>st</sup>, 2006.

On the next several slides, we will look at what initiates the process, the ultimate path, and what the auditors will require as evidence to support each assertion.

This training will address what must be done and when. However, we are not able to share who and how, as this will be decided within each Component.



So, how does the assertion process begin?

The P&E Policy Office will provide a valuation data report for each program to the Component headquarters Financial Management Offices (or FMOs) by October 16<sup>th</sup>, 2006. The report will consist of program data used to complete the valuations, in particular program listings, asset listings, budget data, assets useful life, and Financial Account Codes.

The FMOs will forward the data to the appropriate individuals, per each Component's specific process.

For the Valuation Assertion, Program Management Offices must attest to the accuracy of the data in the reports and send those attestations back to the P&E Policy Office by November 10<sup>th</sup>, 2006, following the procedures set forth by your Service or Agency.


All five of the assertions are due to the Component Assistant Secretary for Financial Management and Comptroller when they are completed—before December 31<sup>st</sup>, 2006. Once again, each Component will devise its own timelines and processes for complying with the requirements by this deadline.





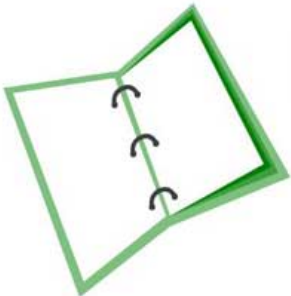
What happens next? By December 31<sup>st</sup>, 2006, the Component Assistant Secretary for Financial Management and Comptroller makes the representation that the Component is ready for audit by sending the cover memo, the assertion checklist, and the documentation of the five assertions to the Under Secretary of Defense (Comptroller).

The Under Secretary of Defense (Comptroller) notifies the Department of Defense Inspector General, who then employs an Independent Public Accountant, and notifies Congress.

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## Valuation



Assets have been valued in accordance with Federal Accounting Standards and GAAP

Valuation   Completeness   Rights & Obligations   Existence   Presentation & Disclosure

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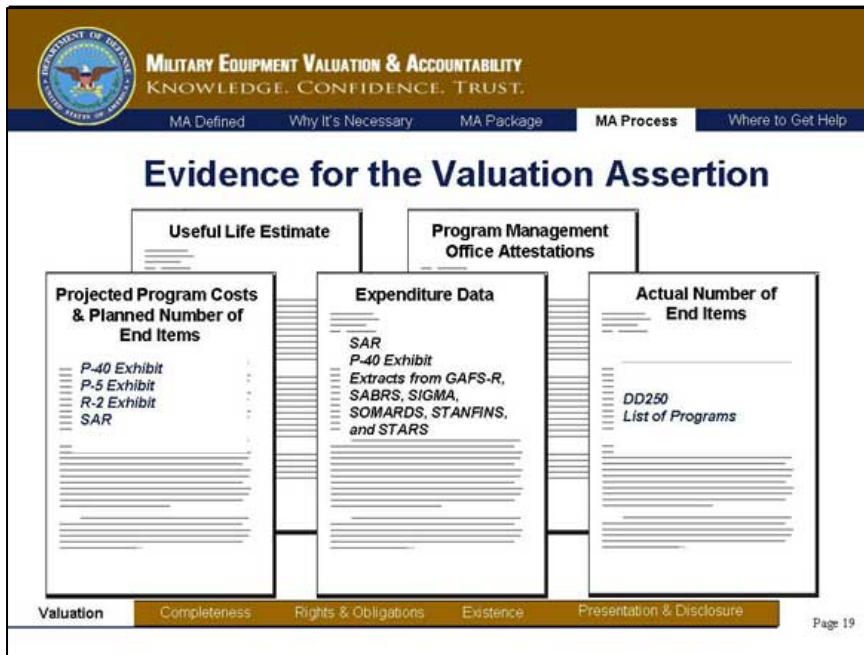
Now, let's look at each assertion individually to learn what the auditors will require as evidence.

An important thing to note is that if your program is selected for audit, the evidence documentation must be readily accessible to an auditor within 72 hours!

We will begin with the Valuation Assertion.

To refresh your memory, the Valuation Assertion claims that assets have been valued in accordance with Federal Accounting Standards and Generally Accepted Accounting Principles.

The P&E Policy Office will complete this assertion based on receiving attestations from the Program Management Offices.



To support the Valuation Assertion, auditors may seek to obtain the following documents as evidence:

- Program Management Office attestations;
- Budget documents to support the total projected program costs and planned number of end items, for example P-40 Exhibits, P-5 Exhibits, R-2 Exhibits, and/or Selected Acquisition Reports (or, SARs);
- Valid receipt and acceptance documents to support the actual number of end items reported, for example DD250s, and/or Program Listings, which will be provided in the Valuation Data Reports;
- Budget documents and/or extracts from Accounting Systems to support expenditure data; and
- To support the useful life estimates, engineering estimates can be used, as well as Office of Management and Budget (or, OMB) documents, operational requirements documents, mission needs statements, and/or commercial industry-equivalent information.

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### Completeness

Programs that meet military equipment criteria have been reported

### Rights & Obligations

The Component reporting the asset does, in fact, have the rights to and "owns" the equipment

Valuation **Completeness** Rights & Obligations Existence Presentation & Disclosure

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Now, let's discuss the Completeness and the Rights and Obligations Assertions. Both assertions will be completed by the Acquisition community. We grouped them together here because we suspect that both assertions will be completed by the same process and individuals.

The Completeness Assertion certifies that all programs that meet the military equipment criteria have been recorded and reported.

The Rights and Obligations Assertion certifies that the Service or Agency reporting the assets claims that DoD has the rights to and "owns" the equipment, and that there is documentation to support this. As an example, inventory held for sale as part of foreign military sales programs is **not** included in the Rights and Obligations Assertion.

The screenshot displays the MEVA website interface. At the top, the Department of Defense seal is on the left, followed by the text "MILITARY EQUIPMENT VALUATION & ACCOUNTABILITY" and the tagline "KNOWLEDGE. CONFIDENCE. TRUST." Below this is a navigation bar with links: "MA Defined", "Why It's Necessary", "MA Package", "MA Process" (which is highlighted), and "Where to Get Help". The main content area is titled "Evidence for the Completeness Assertion". It features a graphic of three overlapping document icons. The top icon is labeled "List of Programs", the middle one "Valuation Assertion", and the bottom one "Budget Documents". The "Budget Documents" icon lists "P-40 Exhibit", "P-5 Exhibit", and "R-2 Exhibit". At the bottom of the page is a horizontal menu with tabs: "Valuation", "Completeness" (which is selected), "Rights & Obligations", "Existence", and "Presentation & Disclosure". The page number "Page 21" is located in the bottom right corner.

To support the Completeness Assertion, auditors may examine:

- The Valuation Assertion,
- Budget documents, and
- A list of programs, which will be provided in the valuation data reports from the P&E Policy Office.



For the Rights and Obligations Assertion, auditors may want to see:

- Valid receipt and acceptance documentation, for example, DD250s;
- Contract documents after Fiscal Year 2002 (which is mandated by Statement of Federal Financial Accounting Standards number 23); and
- Written directives detailing the preponderant use of assets.

Preponderant use occurs when an asset is procured by one Service or Agency, but the asset is actually used for its intended mission by another Service or Agency. The DoD Financial Management Regulation (or, FMR) states that the entity that uses the asset for its mission is the entity that should report it on its financial statements.

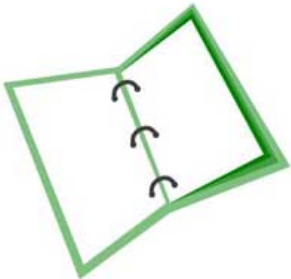
Furthermore, the entity that reports it will be required to assert to it and provide documentation supporting its preponderant use of the asset.



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## Existence



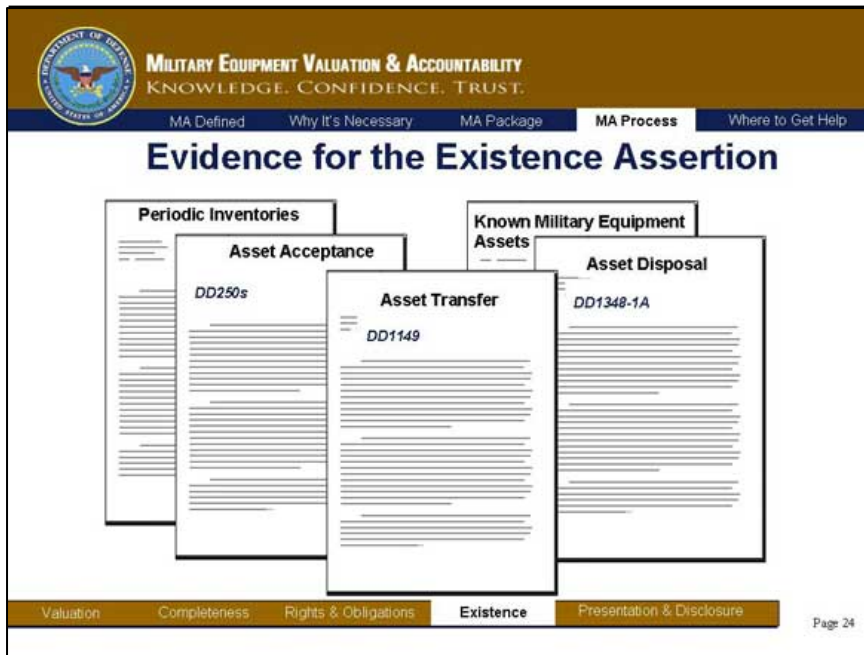
The military equipment reported by DoD does in fact exist.

ValuationCompletenessRights & Obligations**Existence**Presentation & Disclosure

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The Existence Assertion certifies that the reported assets do in fact exist, and there is evidence of their physical existence.


As previously stated, the Existence Assertion will be rendered by the Acquisition and/or Logistics communities.



To support the Existence Assertion, auditors may want to see:

- Periodic inventories, which can be used to validate physical existence;
- Asset listing reports from the accountability systems that identify all known military equipment assets;
- Valid asset receipt and acceptance documentation;
- A list identifying transferred assets and the documentation supporting those transferred assets, for example DD1149s; and
- A list identifying disposed assets and the documentation supporting those disposed assets, for example DD1348-1As.

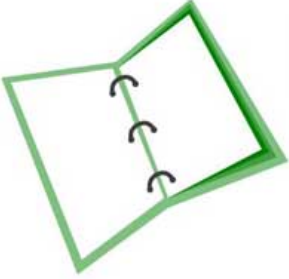




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## Presentation and Disclosure

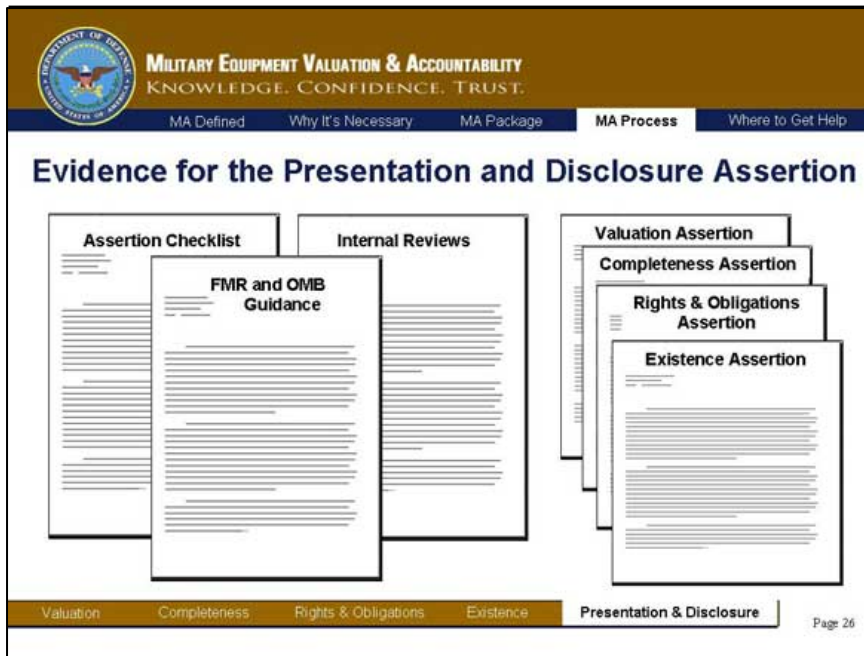


Information is presented accurately on financial statements.

ValuationCompletenessRights & ObligationsExistencePresentation & Disclosure

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Finally, the Presentation and Disclosure Assertion certifies that the military equipment value is presented accurately on the financial statement and has been properly footnoted. The Presentation and Disclosure Assertion will be rendered by the Financial Management community.



For Presentation and Disclosure, auditors may want to see:

- The assertion checklist
- FMR and OMB guidance;
- Internal reviews; and
- The four other assertions: Valuation, Completeness, Rights and Obligations, and Existence.

This evidence will collectively demonstrate that the footnotes related to the reported values in the financial statements are in compliance with the accounting standards.



# 5

## Where Can You Go for Help?



### **Missing documentation:**

Contact your Financial Manager

### **Data discrepancies:**

Visit the MEVA website and fill out the *Support Form*

### **General questions and info:**

Go to <http://www.acq.osd.mil/me/>


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If you are going through the Management Assertion process and realize you are missing documentation, contact your program's Financial Manager right away for help.

If you find discrepancies, visit the MEVA website for guidance. If the available information on the website does not address your concern, complete the MEVA Support Form on the website. Your inquiry will be directed to the help desk, and the appropriate person will contact you to provide assistance.

If you have any other questions about Management Assertion or the MEV initiative in general, the MEVA website should be your first stop.

This initiative is a huge undertaking, and we worked hard to make it as easy as possible for you, and we will continue to do just that.



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## Presentation Summary

- What Is Management Assertion?**  
A formal statement supported by a system of internal controls ensuring audit readiness
- Why Is Management Assertion Necessary?**  
It's the law and it's good business. Because military equipment data must be obtained from the acquisition and logistics communities, these communities need to assert to the accuracy of the data they provide.
- What Is the Management Assertion Package?**  
It's an official declaration of audit readiness and includes a cover memo, assertion checklist, and documentation supporting five specific assertions
- What Is the Process to Document the Five Assertions?**  
It's a collaborative effort among the acquisition, logistics, and financial management communities to make program data audit-ready
- Where Can You Go for Help?**  
The MEVA website, <http://www.acq.osd.mil/me/>, or your Financial Manager

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Now, let's recap what we've learned:

1. Management Assertion is a formal statement supported by a system of internal controls that ensures audit readiness.
2. It's necessary, because it's the law and good business. Military equipment data must be obtained from the acquisition and logistics communities, these communities need to assert to the accuracy of the data they provide.
3. The Management Assertion Package is an official declaration of audit readiness and includes a cover memo, assertion checklist, and documentation supporting five specific assertions.
4. Documenting the five assertions is a collaborative effort among the acquisition, logistics, and financial management communities to make program data audit-ready.
5. If you need help, go to the MEVA website or your Financial Manager.

We look forward to working with you further to make this initiative a success.



We at the P&E Policy Office sincerely appreciate your taking the time to learn about the MEV initiative in this second course.

Thank you.